

FDIC State Profile

Spring 2004

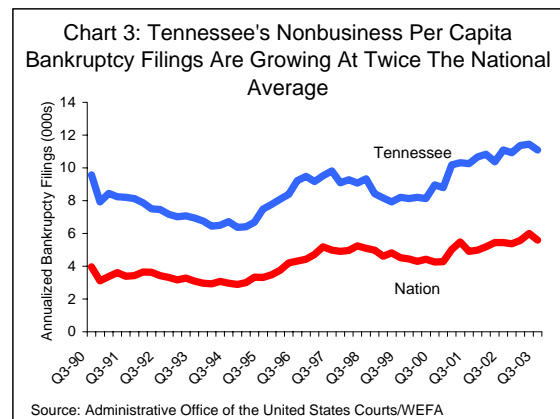
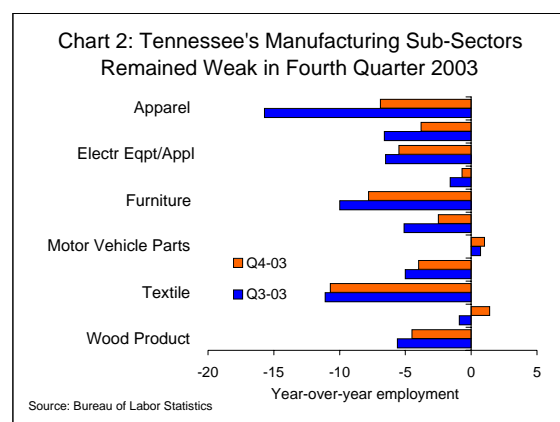
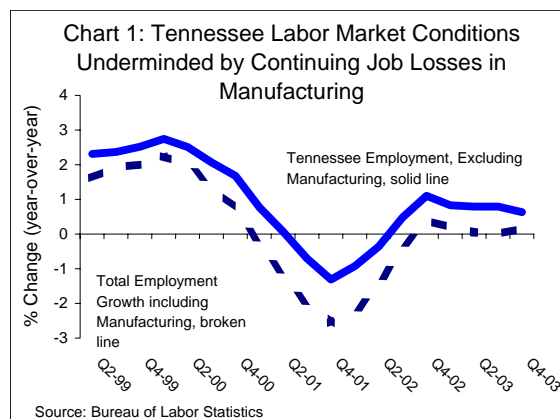
Tennessee

Employment trends in Tennessee remain generally positive.

- Employment levels in Tennessee grew 0.2 percent in fourth quarter 2003 on a year-over-year basis. However, job losses in manufacturing continued to restrain the recovery. (See Chart 1.)
- Although overall employment levels grew during the past year, net losses were recorded for the fourth quarter. Job losses totaling over 14,000 in the quarter were recorded in professional and business services, telecommunications, state and local government, and manufacturing.¹
- Job losses in Tennessee manufacturing were at the lowest level in more than two years, despite industry-wide weaknesses.²
- Textile products and electronics equipments and appliances were the only two manufacturing sectors with positive job growth in the fourth quarter. (See Chart 2.)
- Tennessee continued to have the highest per capita bankruptcy filings rate in the nation. (See Chart 3.) The state's high proportion of low income individuals and weak manufacturing sector could partially explain the trend in bankruptcy rates.

Although consumer credit quality issues remain, past-due loan levels declined among insured institutions based in Tennessee.

- High and increasing bankruptcy rates were only one indicator of consumer financial distress; additionally, the state had the second highest reported past-due consumer loan level nationally, exceeded only by Mississippi. (See Table 1.)
- Overall median past-due loan levels rose during 2001 to levels not reported since 1992, but the figures improved



¹On a year-over-year comparison, the state gained 4,200 jobs in fourth quarter 2003.

²The state manufacturing sector shed an average of 25,000 jobs each quarter since the recession began in March 2001, but lost only 9,933 jobs in fourth quarter 2003.

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at the end of 2003.³ The year-over-year improvement occurred across most lending categories. (See Chart 4.)

Net interest margins improved throughout 2003, but may be pressured in 2004.

- The quarterly median net interest margin (NIM) reported by established insured institutions headquartered in Tennessee peaked at 4.44 percent in third quarter 2002. The margin declined during the first half of 2003, before beginning a steady improvement during the final two quarters of 2003. The margin improvement primarily resulted from an increase in loan levels, which typically offer higher rates of return than alternative investments.⁴ (See Chart 5.)
- As the national economy gains momentum, interest rates are expected to rise. An increase in interest rates, particularly if accompanied by a shrinking of currently high spreads between short- and long-term rates, could place significant downward pressure on NIMs.
- Traditionally, net interest margins are adversely affected by rising interest rates with a lag of approximately three quarters. Net interest margins may be further pressured among community banks in Tennessee, as income is primarily earned through interest-related products.
- Improved economic growth should bolster the financial condition of many borrowers; however, some may experience deteriorating financial positions as higher interest rates cause funding costs to rise at the same time sales may drop as customers financing of purchases likewise rise.

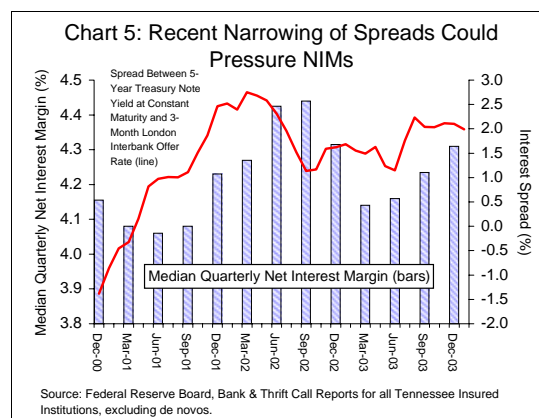
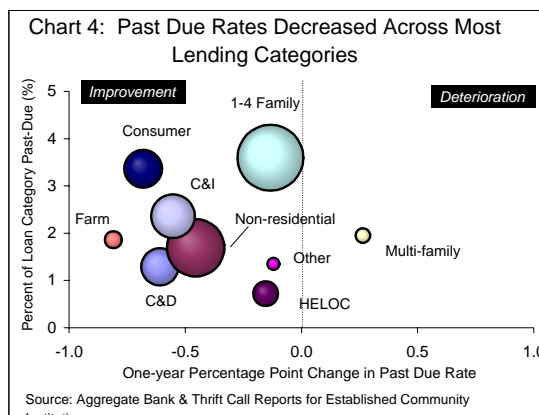


Table 1: Consumer Credit Quality Remains A Major Concern for Banks and Thrifts in Tennessee

State	Consumer past-due loans to total consumer loans (median,%)			4Q03 National Rank
	4Q02	3Q03	4Q03	
Arkansas	3.45	3.00	3.24	5
Louisiana	3.14	2.79	2.92	8
Mississippi	4.51	3.84	3.80	1
Tennessee	4.10	3.23	3.44	2
Area	3.64	3.12	3.34	
Nation	2.40	2.13	2.18	

Source: Bank and Thrift Call Reports; Established community banks only

³The median past-due ratio was 2.47 percent at year-end 2003, down from 2.57 percent one-year ago. Additionally, only 15.9 percent of all insured institutions held past-dues at 5 percent or more of total loans, down from nearly 25 percent one-year earlier.

⁴Median loan to asset levels steadily increased throughout 2003 from 64.0 percent in the first quarter to 66.2 percent at year-end, the highest level since second quarter 2001.

Tennessee at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	208	213	213	221	226
Total Assets (in thousands)	118,582,842	115,451,752	105,935,115	91,998,075	96,725,350
New Institutions (# < 3 years)	13	17	23	21	20
New Institutions (# < 9 years)	46	45	45	44	36
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.38	9.35	9.21	9.39	9.16
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.47%	2.57%	3.02%	2.68%	2.09%
Past-Due and Nonaccrual >= 5%	33	48	52	43	21
ALLL/Total Loans (median %)	1.35%	1.34%	1.29%	1.26%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.80	1.70	1.52	1.85	2.15
Net Loan Losses/Loans (aggregate)	0.50%	0.56%	0.47%	0.37%	0.35%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	15	17	30	20	16
Percent Unprofitable	7.21%	7.98%	14.08%	9.05%	7.08%
Return on Assets (median %)	1.00	1.06	0.89	1.01	1.12
25th Percentile	0.65	0.72	0.56	0.62	0.79
Net Interest Margin (median %)	4.19%	4.30%	4.07%	4.32%	4.38%
Yield on Earning Assets (median)	6.04%	6.81%	8.08%	8.64%	8.23%
Cost of Funding Earning Assets (median)	1.83%	2.48%	4.04%	4.33%	3.84%
Provisions to Avg. Assets (median)	0.23%	0.31%	0.31%	0.22%	0.23%
Noninterest Income to Avg. Assets (median)	0.79%	0.77%	0.78%	0.71%	0.69%
Overhead to Avg. Assets (median)	3.15%	3.11%	3.03%	3.00%	2.99%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	78.38%	78.38%	77.24%	79.31%	79.32%
Loans to Assets (median %)	66.80%	65.92%	65.55%	67.31%	66.87%
Brokered Deposits (# of Institutions)	46	35	31	19	21
Bro. Deps./Assets (median for above inst.)	2.16%	3.44%	2.94%	2.27%	1.77%
Noncore Funding to Assets (median)	21.07%	21.23%	20.57%	19.70%	19.32%
Core Funding to Assets (median)	67.20%	67.71%	68.15%	68.00%	69.85%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	142	149	151	157	159
National	30	28	28	29	32
State Member	16	15	10	11	10
S&L	6	6	6	6	6
Savings Bank	13	14	17	17	18
Stock and Mutual SB	1	1	1	1	1
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	131	20,028,220	62.98%	16.89%	
Memphis TN-AR-MS	24	83,795,985	11.54%	70.66%	
Nashville TN	20	5,840,092	9.62%	4.92%	
Knoxville TN	11	3,962,805	5.29%	3.34%	
Johnson City-Kingsport-Bristol TN-VA	10	2,388,807	4.81%	2.01%	
Chattanooga TN-GA	5	1,414,616	2.40%	1.19%	
Clarksville-Hopkinsville TN-KY	4	883,753	1.92%	0.75%	
Jackson TS	3	268,564	1.44%	0.23%	